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SUBJECT: SALVADORAN BANKING SECTOR PREPARED FOR "NORMAL CATASTROPHE"  
IN RUN-UP TO ELECTIONS

REF: A. SAN SALVADOR 876

[1](#)B. SAN SALVADOR 187

[1](#)1. (SBU) SUMMARY. According to Carlos Caceres, Executive Director of the Salvadoran Banking Association (ABANSA), the Salvadoran banking sector anticipates a 7% drop in deposits preceding the 2009 elections, comparable to the drop before the 2005 Presidential election. The banking sector is prepared for a "normal catastrophe," however, and has enough liquidity to weather a 20-30% drop. Except for a drop in deposits earlier in the year, likely caused by tax issues, the sector has not seen any unusual capital flows. The banks are concerned, though, about an increase in delinquent loans. The Salvadoran banking sector, now fully owned by international banks, is more stable and has deeper lines of credit than in the past. Barring other factors, like a natural disaster, the system is unlikely to face a panic in the run-up to the 2009 elections. END SUMMARY.

[1](#)2. (SBU) Following press and private speculation about potential liquidity issues following a drop in deposits (ref A), Econoff met with Carlos Caceres, Executive Director of the Salvadoran Banking Association (ABANSA) to discuss stability in the financial sector. ABANSA projects a 7% drop in deposits in the run-up to January and March 2009 elections, comparable to what they experienced before the 2005 Presidential election. Caceres said that, although the (leftist) FMLN had a much higher chance of winning in 2009 than in 2005, they were keeping projections the same because of the FMLN's far more moderate rhetoric. So far, the banking sector had not seen any unusual capital flows. Caceres attributed a large drop in deposits between April and May to tax payments and other tax issues, noting that deposit levels have already rebounded.

[1](#)3. (SBU) ABANSA estimated that banking sector reserves were enough to handle a "normal catastrophe," or 20% drop in deposits - for any reason, not just the election, Caceres stressed - and the Central Bank more optimistically thought the sector could handle a 30% drop. ABANSA member banks are currently meeting every two weeks to review liquidity issues, and will start meeting weekly as the elections draw nearer. Likewise, the Central Bank had increased its reserves by 6%. While Caceres did not expect a "bank run" scenario, the sector wanted to be prepared. He noted, however, that this meant the banks' reserves were not being invested or used for new loans.

[1](#)4. (SBU) The sector's biggest concern was an increase in delinquent loans over the past year. Right now, the banks were monitoring the situation, but the state-owned Multi-Sector Investment Bank (BMI) and other entities had lines of credit ready for any bank that found itself in trouble because of bad loans. Caceres also noted that, because of global factors, credit was becoming more expensive worldwide. In El Salvador, for example, a loan that would have been at LIBOR a year ago was now LIBOR plus 2. (Comment: Given recent

developments in the U.S. financial markets with Lehman Brothers, AIG, etc., we expect that credit will continue to tighten in El Salvador as well. End comment.)

¶5. (SBU) Separately, Caceres discussed ABANSA's new financial education program, which the banking sector promised to offer as part of its agreement with the GOES to stave off state-mandated interest rate caps (ref B). Working with local non-government organization FEPADE, they had provided classes to about 10,000 people and were teaching 3-4,000 more per month. The program focused on three key areas: family budgeting, savings, and credit. The early classes included many bank employees, who the customers commonly ask for advice. After the election, ABANSA will expand their program, including working with opinion leaders to stress the importance of good financial education.

¶7. (SBU) Caceres stated that ABANSA was not participating in the GOES's new financial education program, announced August 27. In the pre-election period, he added, the GOES was trying "to do everything now, now, now." As a result, the GOES program will present a very broad range of topics, including money laundering and investment funds, to a massive audience. ABANSA, he said, thought this was too broad to be effective. Budgeting, he said, was the single most important thing Salvadorans needed to learn about financial education.

¶8. (SBU) COMMENT. The Salvadoran banking sector is now fully owned by international banks, including Citibank, HSBC, and BanColombia. Those banks have far deeper international lines of credit to tap, and the banking sector is more stable as a result. They are not immune to shocks from the U.S. financial system and that will have ripple effects in the Salvadoran banking sector. However, the banking sector is well-prepared for any system shocks, and, barring

an uncontrollable event like a natural disaster, the system is unlikely to experience a panic in the run-up to the 2009 elections.  
END COMMENT.

Glazer